

1 these measures forward, U S West has come back to
2 the table and is visiting with us about providing
3 services, T-1 services in particular, and at an
4 affordable rate. This is great for Mayville, but
5 not every rural community will be so fortunate.
6 That is why it is so important to ensure that rural
7 communities get the help they need to provide their
8 citizenry with these services.

9 It's estimated by the year 2002 that over
10 one trillion dollars in E-commerce transactions
11 will be taking place on the web. If rural America
12 cannot be a part of that growing economy, the
13 people will be permanently left behind. The
14 electron pipes of the Internet are just as
15 indispensable as the railroads of the 19th Century,
16 the electrification, highway and rural water
17 systems of this century. Being left behind is
18 being left out. I believe that federal action and
19 assistance is necessary just as it was in
20 electrification and rural water systems of our
21 country. Access to broadband services in the next
22 century is just as fundamental to the future of our
23 people in those services.

24 I thank you for allowing us this time.

25 CHAIRMAN KENNARD: Thank you very much.

1 Next witness is Brian Wolf from Basin Electric
2 Power Cooperative in ISB.

3 MR. WOLF: Good afternoon, Chairman
4 Kennard and your fellow commissioners. I represent
5 Basin Electric Power Cooperative. I would like to
6 welcome you to North Dakota. I would like to
7 recognize our North Dakota Public Service
8 Commissioners here today, and a special recognition
9 to Senator Dorgan, who is, as has been stated
10 earlier, a leader in our ability to navigate the
11 widening ocean separating the digital haves and
12 have-nots.

13 Chairman Kennard, we know your challenges
14 at the FCC. You are confronted with a complex
15 landscaping, including multiple stakeholders and
16 many agendas. It is our feeling that a beacon of
17 light must be there representing the greatest good
18 to the greatest number. We ask that you use that
19 guide as you consider rural access for broadband to
20 states like North Dakota.

21 The organization I work for is a rural
22 electric company. We serve member cooperatives in
23 eight states, including some of the most rural
24 areas in the country. We know firsthand the
25 challenges and opportunities present in those

1 regions.

2 The founders of rural cooperatives faced
3 those challenges earlier in history as a part of a
4 vision to close a great divide. That would be the
5 electricity and telephone divide. The division
6 then was to provide affordable urban-quality
7 services to the rural consumer. Chairman Kennard,
8 we went places no one else would go.

9 In order to accomplish that vision it
10 required commitments from the state, federal and
11 private resources. We feel that's a good recipe
12 for success.

13 At Basin we evaluate ways to maintain
14 competitive power rates and add value to our
15 members. We are accomplishing this in part by
16 networking with our members through
17 telecommunications and technology. The benefits
18 associated with this type of networking are many,
19 but they are also directly related to the amount of
20 band width that you can access and afford.

21 We are very active in providing Internet
22 services, both directly and as a wholesale supplier
23 to electric and telephone cooperatives throughout
24 this region. One Internet success story you heard
25 a little bit about, and that's Watford City. We

1 are the upstream Internet provider for McKenzie
2 Electric, one of our members, who in turn offers
3 that service locally. We applaud the community
4 networking in Watford City, the recently selected
5 City of the Year in North Dakota.

6 We also partner with North Central Data
7 Co-op. They are located in Mandan, North Dakota.
8 We partner with them to deliver electronic commerce
9 applications to rural constituencies, the rural
10 cooperatives that we both serve, and we do that
11 over the Internet. NCDC is a true success story
12 representing how a software development company can
13 employ 215 high tech positions in an area like
14 Mandan. They survive and thrive in a rural state.
15 They have done well.

16 In order to fully realize the potential of
17 NCDC in the future, their customers must have
18 affordable broadband services. However, NCDC is
19 not unique in that regard. It is our feeling that
20 any organization looking to maximize E-commerce in
21 our region must have access to affordable broadband
22 access.

23 We feel our experiences in developing
24 network services in rural areas does make us unique
25 to talk about the challenges. Basin is an

1 organization that could never justify building a
2 complete telecommunications network we need to
3 fulfill our mission. Therefore, we work diligently
4 with many carriers to provide the pipes so we can
5 deliver the application. That experience has
6 taught us there is no one best way to build a
7 network in rural America and it does suggest many
8 of the challenges.

9 Chairman Kennard, one of the challenges we
10 face to support our poor business and bringing
11 Internet and other applications to rural markets is
12 the lack of ubiquitous broadband transport
13 services.

14 Another challenge we face is even if their
15 transport is there, it is often very unaffordable.
16 Simply stated, we believe in those areas where a
17 market failure truly exists, there must be some
18 mechanism to assist in delivering affordable
19 transport. Without that, the future of this region
20 will be hampered concerning the ability to compete
21 in the digital economy.

22 Can you imagine, Chairman, life for
23 citizens of this state or any state without access
24 to interstate highways, railroads or airlines, even
25 if those airlines don't always travel on time?

1 This is no different.

2 I would underscore the importance of
3 broadband access for the future, especially of our
4 children. They are part of the dot-com
5 generation. We recognize and appreciate your
6 support of the E rate concerning Internet access.

7 However, we feel a bigger picture may
8 require a similar program be made available to
9 communities as a whole that would support business
10 and residential broadband needs. We hope this
11 would create more opportunities through technology
12 jobs for our children so they have a choice to stay
13 here in our state. We are tired of losing them to
14 other regions that have the electronic
15 opportunities we do not have.

16 Chairman, I have other success stories and
17 challenges I could share. Time does not permit. I
18 simply ask you strongly consider additional support
19 mechanisms to bring the cost of broadband transport
20 to rural markets more in line with urban centers.
21 We believe this will encourage companies that
22 provide fiber, wireless, satellite and other
23 technologies the incentive to go there. We also
24 believe that application providers will stream to
25 those pipes to deliver their electronic wares, both

1 on an import and export basis, if the pipe is
2 there.

3 We recognize, Chairman Kennard, this type
4 of support system may require a state, federal and
5 private forum. We would be interested in standing
6 ready to offer our creativity and experience to
7 help for the benefit of our rural constituencies.

8 On behalf of Basin, I would like to thank
9 you, Chairman Kennard, your fellow Commissioners,
10 our state Commissioners and Senator Dorgan for this
11 opportunity to have a small voice in the future of
12 our region.

13 CHAIRMAN KENNARD: Thank you very much,
14 Mr. Wolf, and thank you all for those very
15 thoughtful presentations. We have about 15 minutes
16 before we have to go to the next panel, and I'd
17 like to open it up to some questions of the
18 panelists and maybe get some dialogue going with
19 the audience, as well.

20 Let me start off with a couple questions.
21 How many of you here today use information
22 technologies in your business every day? That's
23 almost everyone.

24 Now of those of you who raised your hand,
25 how many of you find today that lack of speed, lack

1 of broadband is a limiting factor in your business,
2 it affects your ability to do business? Of those
3 hands that went up -- and for the record I'd say
4 about a third of the hands went up. We have
5 someone who's transcribing this, so I want an
6 accurate record for our hearing. How many of you
7 are worried that if you can't get access to more
8 speed and broadband capability that your ability to
9 continue having a business here in North Dakota is
10 threatened? I guess the next question that I'd
11 like to pose really focuses on that, because what
12 we have here -- and again for the record, I'd say
13 about 12 hands went up.

14 Brian mentioned in his testimony some
15 historical analogies to the railroads and the
16 interstate highway system and electric
17 cooperatives, and those are metaphors that we often
18 hear when we talk about the information highway,
19 and many of you know, because I'm sure you've
20 experienced it, that the railroads and the
21 interstate highway systems in their time were
22 absolutely essential to speeding commerce and
23 culture around the country and that some small
24 communities that did not have access to the
25 railroads or the highway system did in fact wither

1 on the vine.

2 Today we're dealing with a similar threat,
3 it seems to me, with the development of these
4 broadband networks, but it's a different model.
5 The railroads, the interstate highway system,
6 electric cooperatives, the model there was one,
7 single provider. Government expected that there
8 would be one monopoly provider of these services,
9 and it was usually a highly regulated business. In
10 the interstate highway context government actually
11 built the highway system. We didn't rely on
12 private investment capital at all to build that
13 system.

14 Today we're called upon to reconcile our
15 notion that we have to have ubiquitous access with
16 the notion that we're going to have it based on a
17 competitive model. My question for the panelists
18 and anyone else who would like to take it in the
19 audience is: What is the appropriate role of
20 government? Can we expect that a competitive model
21 will enable these networks to be built?

22 I know you talked about -- Lee Kaldor
23 talked about the Mayville example about how they
24 went to U S West and said will you build these
25 high-speed lines? U S West said no. They went to

1 little ISP. The ISP said, yes, we'll do it, and
2 then U S West came back in. That's competition at
3 work.

4 The question is: Can we rely solely on
5 competition, a competitive model, multiple
6 providers to meet these needs, or is government
7 going to have to step in and subsidize the
8 deployment of broadband, and if so, what is the
9 appropriate role of government? Brian, do you want
10 to take it?

11 MR. WOLF: Thank you, Mr. Chairman. I'd
12 like to respond and then, I think, my colleague
13 here would as well. With respect to the analogy to
14 highways and railroads, if you will, I look at that
15 as a backbone transport mechanism. We have
16 thankfully in this state some very good providers
17 of backbone access. I think there's some
18 additional work that needs to be done to broaden
19 that backbone access because, as we all know, that
20 serves as a cornerstone.

21 What I would really like to comment on is
22 with respect to the branches that come off of that
23 backbone access and your question in terms of are
24 we creating or suggesting that we create a
25 monopoly, and at least in my comments what I've

1 suggested that we separate the concept of
2 transport, being the pipe, from application, such
3 as Internet or other types of applications, and I
4 would suggest to you that providing incentives for
5 providers to, you know, make available cost-
6 effective transport will stimulate service
7 providers in terms of their interest in delivering
8 applications over those pipes, and it may seem
9 fairly fundamental, but it is very, very important,
10 in our opinion, based upon our ability to get into
11 rural markets that once that pipe is there, we do
12 believe that others will come to bring services to
13 their pipe, and we think that's where that
14 competition element comes into play.

15 FCC CHAIRMAN KENNARD: How is the
16 transport going to get built?

17 MR. WOLF: The transport gets built, in
18 our opinion, with some incentives in those areas
19 where a true market failure exists, where
20 essentially there is no cost-effective payback to
21 deliver that transport service today. In order to
22 get into some of the rural areas, some of the
23 farthest regions of our territory and deploy the
24 sort of broadband services that need to be there,
25 it will be a costly venture.

1 However, I might add that that will also
2 be dependent upon the technology deployed. As you
3 can see, at least in my comments, we've not
4 suggested one singular type of technology be looked
5 at. We believe that dependent upon the various
6 market and accessibility to various transports,
7 that might be done over wireless, it may be
8 satellite, it may be fiber, it may be copper. You
9 know, the devil's in the details, Mr. Chairman, in
10 terms of how you flesh this out and what technology
11 qualifies and to what extent in terms of some
12 subsidy, but we think each of those situations is
13 going to have to be run through a template of
14 analysis that is yet to be determined.

15 FCC CHAIRMAN KENNARD: So you believe
16 there is an appropriate role for government in
17 spurring the deployment of these technologies. One
18 of the things that we're grappling with at the
19 federal level and I know at the state level,
20 including here in North Dakota, is how does
21 government provide proper incentive for multiple
22 technologies to compete in providing these
23 services? We all grew up in a pretty much wire-
24 line exclusive environment.

25 Now we're seeing technologies enter the

1 scene, as you mentioned satellite, wireless
2 technologies, some of which can provide these
3 broadband technologies more efficiently and
4 effectively than the wireline technologies,
5 particularly in rural areas. How do we make sure
6 that those companies have a role to play in
7 deploying these technologies and participating in
8 some of these government subsidy programs?

9 MR. WOLF: Is that a question for me, Mr.
10 Chairman?

11 FCC CHAIRMAN KENNARD: Or anyone.

12 MR. WOLF: I guess I would respond this
13 way. It is important that those constituencies,
14 those stakeholders, if you will, are involved in
15 what we suggest is some forum activity that must
16 follow these types of hearings to discuss, you
17 know, who would qualify in terms of accessing
18 subsidies if they were there to deploy broadband
19 services.

20 We still feel that no single solution will
21 fit all the rural market spaces that we certainly
22 touch, and we feel within the United States you
23 will have a -- let's just say a matrix of providers
24 in terms of the technology, whichever best fits.
25 Is it a horse race to get to the trough first in

1 terms of the subsidy access support? We really
2 think, again, the devil's in the details on that,
3 Mr. Chairman. That's an issue that has yet to be
4 fleshed out, but we think it would be an
5 interesting forum to start.

6 MR. KALDOR: Chairman Kennard, with
7 respect to what has happened in Mayville, the fact
8 is we have a really good backbone in existence
9 already. We have two fiber -- different companies
10 providing a fiber line that goes right through our
11 community, but we can't tap into it affordably.
12 That's our limitation, and --

13 FCC CHAIRMAN KENNARD: So it's the last-
14 mile problem. You can't get access to the
15 transport.

16 MR. KALDOR: It's a last-mile problem.
17 And it seems to me that in providing some kind of
18 an incentive, as in our situation, we were
19 successful in getting a grant that is causing us to
20 seek out those other avenues. Okay. What is
21 available? We're going to try to select what's
22 most affordable and meets our needs the best.

23 So in terms of making this happen, it
24 seems to me that in communities like Watford City,
25 for example, where you've made a tremendous effort

1 locally to latch onto that access and that service,
2 the latitude has to probably be at the community
3 level given the ability to find what works best for
4 them, and not every provider is going to come.

5 The circumstance I think in our situation
6 is we probably only have a couple of different
7 options available to us today, but they have to be
8 affordable; otherwise, it can't happen here. And
9 companies like ours and several others in the state
10 that are doing IT work find it much easier to move,
11 and we don't want to do that. We want them to be
12 able to stay in places like Watford City and
13 Mayville.

14 So I see the Federal Government action as
15 being -- providing some kind of incentive down at
16 the local end, if it's at all possible.

17 FCC CHAIRMAN KENNARD: So you think the TF
18 grant was instrumental in spurring the kind of
19 competitive environment that you're seeing in
20 Mayville this far?

21 MR. KALDOR: I think that it was.

22 FCC CHAIRMAN KENNARD: How about the
23 funding that -- that Susan Wefald mentioned that --
24 funding for education, technology and education?
25 Is that having an impact on spurring a demand for

1 businesses to get services, as well? Once the
2 companies start deploying to the schools, in other
3 words, do they find that it's more economical then
4 to extend those lines to businesses and get that
5 going?

6 MR. KALDOR: I will respond to that. Many
7 of our clients are small businesses across North
8 Dakota, and a lot of the people that are running
9 these businesses are probably my age or middle age,
10 and it's their children that are helping them run
11 the Internet side of their business, and it's
12 because they've had that experience in school. So
13 that does, I think, provide a natural entry into
14 more demand for those services.

15 FCC CHAIRMAN KENNARD: Thank you. Do we
16 have any questions of these witnesses from my other
17 colleagues, either at the federal or state level?
18 Sure, Bruce.

19 PSC COMMISSIONER HAGEN: Just one
20 question. Susan Ness and I were with Carla
21 Anderson over at Medcenter One, and one of the
22 things that came out was she feels, if I can state
23 it correctly, that there's a reluctance or a
24 hesitancy on the local level for people to grab
25 ahold of this whole technology. They want to do

1 it, but they don't quite know how to do it and they
2 need somebody to help them do it, and once they get
3 into it, they seem to like it. What can you do to
4 change that?

5 MR. KALDOR: Well, there again, I think
6 education is the key, and exposure. Unless you
7 have been exposed to the tools and to the value
8 that they bring, you really don't know they exist.

9 You hear -- I talk to many people who hear
10 about the Internet. They see it on television, all
11 the ads. Do all your shopping, do your trading on
12 line, everything, and yet many of them have not
13 experienced it at all in their own personal lives
14 and they're fearful of it. So they have to be
15 exposed to it and there needs to be a real
16 concerted effort to educate and to develop an
17 atmosphere where people understand. This is your
18 tool and can be used to your benefit.

19 FCC CHAIRMAN KENNARD: I think in many
20 cases, Bruce, access to technology is becoming a
21 competitive imperative. People in the farming
22 industry, the transportation and in retail are
23 finding that if they don't have access and
24 understand how it works, they're not as competitive
25 as their competitors, and so that is driving a lot

1 of this deployment. Any other questions?

2 FCC COMMISSIONER NESS: One of the things
3 that new technology brings are a host of new
4 services. You mentioned about separating out the
5 transport from the services that ride upon the
6 transport. Is it an economic advantage to bundle a
7 host of services and therefore create what
8 historically has been an -- an uneconomic vehicle
9 for reaching rural communities? Is it now becoming
10 more and more economic to do it because you can
11 bundle services? Has anyone seen that as an
12 outburst of the new technologies?

13 MR. VEEDER: I think to adequately answer
14 that question, keep in mind that North Dakota has a
15 population of less than 600,000. My community --
16 community center of 1500 people serves a community
17 of 6,000 people, over two million acres -- or two
18 million -- I mean, so bundling is a little
19 difficult.

20 By the time we're dealing with fiber
21 access and by the time we have fiber dealt with,
22 we're actually more interested in an economic
23 development side of dealing with wireless access,
24 for example. So one of the things we've had to do
25 is cross over our local regulatory burdens, I

1 guess, and provide wireless service kind of outside
2 the box really and do that locally. That costs a
3 great deal.

4 We're a community that happens to have a
5 little better vision. Bundling isn't even
6 necessarily allowed. We have U S West provides --
7 or just recently provided telecommunications
8 service in our city and a cooperative provides it
9 for the county. We have some burdens there. So
10 there's some barriers that the PSC is aware of, but
11 it's basically due to a very rural population that
12 it's just not economical to provide those services
13 to us.

14 So as an economic development tool we put
15 our money into telecommunications services, but the
16 dollars that are there are limited. So I guess
17 what my -- our model in our community has proven
18 that it is worthwhile to put those dollars in and
19 to bundle those services.

20 Medcenter One is a classic example that
21 provides telemedicine services to our community and
22 now are looking at allowing us to do
23 teleconferencing. Our limitation factor with ISDN
24 in our company was that ISDN for our local bank,
25 which does teleconferencing to its headquarters

1 throughout the United States, it runs about \$1700 a
2 month for ISDN services in its headquarters in
3 Watford City, where in its regional banks in
4 Phoenix and Fargo it costs about \$300.

5 So, yeah, we do work together with --
6 whether you call it bundling or cooperative efforts
7 or whatever, but a lot of those efforts are outside
8 the box. We don't even know if we want the world
9 to find out about them because it's not -- probably
10 doesn't fall within the regulatory authority. So
11 you buy your own systems and have them work the way
12 it's supposed to.

13 So part of it is in having communities do
14 it, they have to get there, and Mayville is an
15 example of that, as well. I don't know if that
16 answers your questions, but if we could share those
17 services, hospitals, healthcare -- healthcare,
18 nursing homes, libraries, county governments,
19 states governments, all of those services together,
20 if we could find a way to do that, I think we can
21 get access to our community.

22 FCC CHAIRMAN KENNARD: Thank you. Unless
23 there are any other questions from the
24 Commissioners, I'd like to move to our second
25 panel, and I want to be sure and save time at the

1 end so at that we can hear from the audience.
2 Thank you all very much. Those are great
3 presentations. Would the next panel please
4 assemble here? You're welcome to stick around, of
5 course.

6 Now the first panel that we had this
7 afternoon consisted of people who used
8 telecommunications services or do use
9 telecommunications services. Our next panel will
10 consist of people who provide those services, and
11 we have a very interesting array of people because
12 we have a regional Bell operating company, one of
13 the major competitive local exchange carriers in
14 the country, we have a small telephone cooperative
15 represented here, and we have the cable industry
16 represented here. So these are people who not only
17 provide services but compete against one another in
18 providing services. So we'll get a good sense of
19 the competitive dynamic and the role of government
20 in that dynamic end. We'll start with Judy
21 Peppler, who is vice president for the North Dakota
22 operations for U S West.

23 MS. PEPPLER: Thank you. Good afternoon,
24 Chairman Kennard. I apologize. I have a frog in
25 my throat today that I have not been able to get

1 rid of.

2 Commissioners Ness and Furchtgott-Roth, on
3 behalf of our over 500 employees in the state, I'd
4 like to welcome you to North Dakota. As you said,
5 I'm Judy Peppler. I'm vice president of U S West
6 operations here in the state. I was very pleased
7 to be able to participate in today's discussion. I
8 think we're all lucky to be alive right now. It's
9 a time of extraordinary change and innervation.

10 The Internet is changing the way we all
11 live and conduct our business. Every time I turn
12 on the news or pick up the paper, I hear about
13 another opportunity available through the
14 Internet. So I think your challenge as
15 policymakers is to help ensure that these new
16 opportunities extend out to all parts of America
17 and to North Dakota.

18 I think we have a good story to tell here
19 in North Dakota. Competition is alive and well as
20 is evidenced by the panel here. The regulatory
21 environment created by the state has been good for
22 the development of competition, rate-of-return
23 regulation has been eliminated, and aside from the
24 interLATA restrictions, all competitors are subject
25 to basically the same regulatory constraints in the

1 markets that they serve.

2 As a result, U S West faces competition
3 here from both wireline and wireless service
4 providers as well as several resellers. In order
5 to meet that competition, U S West has deployed
6 over 29,000 miles of fiber in the North Dakota
7 network, and 100 percent of our switches here are
8 digital.

9 In terms of broadband deployment, our
10 customers in all of our exchanges have access to
11 frame relay services. DSL and ATM cellular
12 services are available in Fargo and Grand Forks and
13 soon to be available here in the Bismarck area, and
14 ISDN is available in those three towns, as well as
15 in Dickinson here in the state.

16 Many of these investments were made just
17 this year as a result of some positive legislation
18 that was passed by the state legislature and
19 supported by the state commission here. It allowed
20 us to rebalance our rates, to bring our residential
21 prices more in line with our actual costs of
22 providing the service and lower our toll and access
23 prices to be more competitive in those markets with
24 the incentive, of course, then to continue to
25 invest in our network.

1 The rebalancing was critical to us because
2 in North Dakota we serve over 225,000 access lines
3 from 35 wire centers, and it's expensive territory
4 to serve, as you heard from the earlier panel. Of
5 our 35 wire centers, 25 of those serving about
6 29,000 customers have costs greater than 135
7 percent of the national average. Despite that,
8 none of those customers qualified for any universal
9 service funding under your recent order.

10 Today these customers are supported by
11 higher business rates, roughly about 31.60 for
12 business versus 15.50 for residential service, and
13 by access charges that are still going to be
14 relatively high even after our rate went down at
15 about 5.9 cents per minute, but I think the
16 legislature and the commissioners recognize that on
17 a going-forward basis, we need to do some of that
18 rebalancing in order to remain viable in the
19 marketplace.

20 Some have discussed using a universal
21 service support to pay for the broadband networks.
22 While U S West wholeheartedly agrees that broadband
23 deployment needs to be encouraged, we also believe
24 that at this time it's premature to conclude that
25 universal service funding should be used for this

1 purpose. Before expanding the role of universal
2 services, the FCC must first finish the job of
3 reforming the subsidy system for plain, old
4 telephone service in the country.

5 As we said, the order that you recently
6 adopted does not necessarily address the important
7 subsidies contained in access charges. For
8 instance, the only state west of the Mississippi
9 River to receive funding under your order is
10 Wyoming.

11 So I believe an important question for us
12 policymakers in the state is that if western --
13 Midwestern states only get that much universal
14 service support for regular telephone services, how
15 can we expect to have a universal service fund for
16 broadband that would be adequate?

17 We believe that Congress and the FCC
18 should create a regulatory structure that
19 encourages build-out of advanced services like
20 DSL. A big first step would be removal of the
21 interLATA restrictions on data services so that U S
22 West could construct an Internet backbone network
23 to provide increased access to the underserved
24 Midwest at last.

25 There's now a bill pending in Congress

1 with over 140 co-sponsors that would do just that,
2 and I would encourage the FCC to support that
3 legislation.

4 A second step would be to bring parity to
5 the regulation among broadband providers,
6 subjecting I-LECs or companies like U S West
7 broadband services to regulations such as pricing,
8 unbundling, separate subsidiary requirements, and
9 line sharing while allowing cable companies to
10 deploy broadband services virtually free of
11 regulation, and it complicates and frustrates the
12 goal of delivering broadband services to the
13 greatest number of customers, particularly rural
14 customers.

15 Let me be clear that U S West is not
16 seeking to impose the entire array of regulations
17 on all broadband providers. Rather, it's our
18 position that if all providers are given an equal
19 opportunity to compete in the broadband market
20 place, that more and better services will be
21 delivered to a greater number of customers,
22 including rural customers, and the consumer will be
23 the ultimate winner.

24 Only after reform occurs in these two
25 critical areas will policymakers be in a position

1 to assess whether market forces are sufficiently
2 strong without public support to ensure broad-scale
3 deployment of advanced services to rural America.

4 The ending appears that there are
5 marketplace failures that make services to areas
6 incomplete. Congress may need to examine a wide
7 range of government action, including extension of
8 competitively neutral universal service funding to
9 rectify the inequities.

10 Deferring decisions on the creation of a
11 new, explicit support program will also allow
12 policymakers to more accurately gauge the
13 appropriate size of any program that might be
14 needed.

15 We're very proud of the strides that we've
16 made as an industry in the deployment of advanced
17 broadband services. I don't think there's any
18 single solution, I think as we've heard, to assure
19 that the deployment of broadband services reaches
20 customers in rural areas, but we do believe that a
21 well-constructed universal services plan, as well
22 as parity and regulatory treatment among competing
23 broadband providers, will best serve the needs of
24 all consumers.

25 So I appreciate the opportunity, and I'd

1 be happy to answer any questions later.

2 CHAIRMAN KENNARD: Thank you, Ms.
3 Peppler. Our next witness will be David Conn, vice
4 president at McLeod USA.

5 MR. CONN: Thank you, Chairman Kennard,
6 and I also would like to extend my thanks to the
7 other FCC Commissioners and the North Dakota
8 Commissioners and Senator Dorgan for the
9 opportunity to make a statement here.

10 I'd like to begin very briefly by telling
11 people just a little bit about our company, what we
12 do, what we have done, what we plan to do in the
13 future.

14 We actually started business in Iowa and
15 Illinois in 1994, two years before the Telecom Act
16 began. We started business providing a package of
17 competitive local and long-distance services,
18 primarily at that time to small and medium-sized
19 business customers in what we consider to be second
20 and third-tier markets, lots of towns in the 8,000,
21 10,000, 12,000, 20,000 range, all the way up to our
22 home base in Cedar Rapids, which is about 120,000
23 now.

24 Since that time we've grown. Our target
25 footprint now includes 21 states, which are the 14

1 U S West states, the five Ameritech states, plus
2 Missouri and Kansas. We serve business and
3 residential customers now. In fact, about 60
4 percent of our customer base is residential.
5 That's true both systemwide and in North Dakota.

6 We've started to build out our networks.
7 We are fairly far along in Iowa and Illinois. We
8 have a pretty comprehensive backbone and in many
9 places local fiberoptic networks. Our network
10 isn't to North Dakota yet, but we're going to get
11 here. Sometime in the next year we should have a
12 switch operation out of Fargo. We have fiber
13 already placed here in Bismarck, and eventually
14 that will be connected.

15 We're using generally kind of regional
16 switching topology, so we may well end up
17 switching, for example, Bismarck out of the Fargo
18 switch for all services, including local service
19 because we think that's the most economical way at
20 least in many cases to get service going.

21 That's in a nutshell, at least, what our
22 company has been doing, and now I want to focus a
23 little bit on broadband deployment, specifically
24 the topic here today, and I'd like to tell you
25 about a couple things that we're doing in that

1 regard.

2 The first is what we started about a
3 year-and-a-half ago in Cedar Rapids, which is
4 deployment of what we feel is probably one of the
5 most robust networks anywhere in the country. In
6 Cedar Rapids we're in the process of overbuilding
7 the entire city with a fiberoptic technology that
8 will take fiber to within about 500 feet of every
9 home and business that's in Cedar Rapids.

10 That's a network that's capable of
11 providing and is providing now video services,
12 local telephone service, long-distance service and
13 high-speed Internet access.

14 The disadvantage of that network, it's
15 very expensive. It costs a lot to build that
16 network, and that network, as well as the one I'm
17 going to describe to you, which is being built kind
18 of in southeast South Dakota and western Minnesota,
19 we consider to be in the laboratory stage right
20 now. Not in the laboratory stage -- not so much
21 because of the technology but because before we
22 fully commit to doing this on a widespread basis,
23 we feel that we need to fully understand the
24 technical implications, the operational
25 implications and the financial implications of how

1 those networks work, what service packages
2 customers want, and what revenue streams are going
3 to result from those service packages. So that's
4 the Cedar Rapids network.

5 The next network I want to describe is
6 being deployed by a subsidiary of ours in South
7 Dakota called Dakota Telecommunications Group.
8 They are in the process of overbuilding with a
9 hybrid fiber co-ax technology in small communities
10 in southeastern South Dakota and western Minnesota,
11 and when I say small communities, those are
12 communities that I think would qualify as rural by
13 anyone's standard, communities of 700 people, a
14 thousand people, 2,000 people. Exactly the sort of
15 communities I think that we're concerned with here
16 today.

17 Again, we consider that to be in the
18 laboratory stage. We hope it works, we think it's
19 going to work, but we need to try it in some places
20 to find out before we can commit to doing that
21 everywhere, and once we do get to the stage where
22 we're willing to make that commitment, then there's
23 the additional element of getting the funding to be
24 able to do that, and that perhaps is the thing I
25 want to leave everyone with today.

1 Companies like my company that are trying
2 to get into a market that has traditionally been a
3 monopoly market face a lot of challenges. There
4 are legal challenges, there are operational
5 challenges, there are challenges that are posed
6 just by day-to-day interactions between companies
7 that may not always agree on all issues and in fact
8 may disagree on most issue, but in order to execute
9 on business plans and in order to maintain access
10 to capital markets which are absolutely vital for
11 the sort of network deployment we're talking about,
12 it's imperative that we have some sort of stability
13 to the ground rules that underlie everything that
14 my company and companies like mine are doing.

15 What we've seen over the last three years
16 is a situation where we have the Telecom Act,
17 wonderful piece of legislation, FCC rules to
18 implement that Act challenged in court, supreme
19 court decision, everything's up in the air,
20 arbitration decisions, state commissions challenged
21 in court, final prices still not determined for
22 unbundled network elements in some states even
23 though those interconnection negotiations began
24 immediately after the Act was passed.

25 I guess the point I want to leave everyone

1 with is we firmly believe that the Telecom Act is
2 working, but the fact of the matter is it's going
3 to take some stability and some time for
4 competition to emerge. Every time we talk about
5 changing the rules to make this change or that
6 change in order to give one party or another a
7 different advantage, that sets companies like mine
8 back. It sets back our access to capital, it sets
9 back our implementation of existing business plans.

10 As a result of that, changes like the one
11 that Judy was talking about on data services we
12 believe are absolutely inappropriate at this time.
13 It will not serve either consumers nor will they
14 actually help the deployment of broadband networks.

15 I want to thank everybody for the
16 opportunity to speak here today, and I hope we get
17 a chance to get in with some questions and talk
18 about the issues that people are interested in.
19 Thank you, Mr. Chairman.

20 FCC CHAIRMAN KENNARD: Thank you very
21 much. David Crothers, executive vice president of
22 the North Dakota Association of Telephone
23 Cooperatives. Thank you for hosting me again to
24 North Dakota. I appreciate it. Good to see you.

25 MR. CROTHERS: Chairman Kennard, it's a

1 delight to have you here again. I would like to
2 welcome you, Commissioners Ness and
3 Furchtgott-Roth, as well as our own North Dakota
4 Public Service Commissioners, Commissioners Wefald
5 and Hagen.

6 For the record, my name is David Crothers
7 from the North Dakota Association of Telephone
8 Cooperatives. The association represents all of
9 the cooperatives and independent telephone
10 companies in the state. Those companies serve over
11 150,000 homes and small businesses, provide
12 customers in 53 counties with telephone service,
13 and serve 91 percent of the geographic territory of
14 this state.

15 The North Dakota independent telephone
16 industry has a long and distinguished history of
17 bringing modern, affordable telecommunications
18 services to our state's citizens. Whether it be
19 our conversion to digital switching, deployment of
20 fiberoptics or even transformation to single-party
21 service 40 years ago, the independent telephone
22 industry was the leader in this state.

23 There are a number of reasons for the
24 commitment of these companies to individuals at the
25 end of the line. First, there has always been a

1 strong, unwavering commitment by federal and state
2 policymakers to modern telecommunications services
3 to the people regardless of where they live in this
4 nation; second, the independent telephone industry
5 is locally owned and decisions regarding the
6 operation, rates and investment in that telephone
7 company are made by your friends and neighbors in
8 this state; and, third, the availability of
9 universal service funds and a strong rural
10 utilities service loan program.

11 I assure you in North Dakota providing
12 telephone service to the people has happened in
13 concert with the intent of policymakers throughout
14 the state and in Washington, D.C. The dollars made
15 available for universal service and through the RUS
16 program have gone exclusively to making rates
17 affordable and investment in facilities.

18 But we stand today in the infancy of an
19 absolute new era in telecommunications:
20 Competition, explicit support, fast-changing
21 technology and evolving definitions of universal
22 service. Some believe we should be scared to
23 death.

24 The independent telephone century in North
25 Dakota fully concurs that advanced services and

1 technologies should be deployed as rapidly as
2 possible to rural America, but the reason we in
3 North Dakota become frightened is because of the
4 impact of competition, support mechanism, the rapid
5 deployment and evolving technologies have a
6 completely different meaning in rural America than
7 they do in urban and more densely populated areas
8 of our nation.

9 Senator Dorgan, members of the farm team
10 in the Senate and many others throughout both
11 houses of Congress recognize the inappropriateness
12 of applying modified urban policies to rural
13 economics and demographics. We fear that a full
14 and complete understanding of the uniqueness of
15 rural telecommunications will be lost between
16 Congressional policymaking and regulatory rule
17 writing.

18 We are very concerned that a
19 telecommunications policy for the East and West
20 Coasts, as well as select urban areas, will become
21 the law of the land and rural areas will have
22 nothing to show for it but higher local rates, more
23 line items on their telephone bills for
24 connectivity fees, taxes for federal universal
25 service support and state universal service fund

1 assessments.

2 Federal and state telecommunications
3 policy does not take place in a vacuum. It is
4 applied uniformly to local economies and
5 demographics throughout this nation. While we
6 fully understand the Act calls for special
7 recognition of rural areas and members of our
8 association believe that advanced technology is
9 crucial for the economic viability of rural
10 America, I would like to take a moment to
11 illustrate just how fragile the rural economies in
12 the Great Plains states are today.

13 Members of our association serve a state
14 in which 27 of the 53 counties have a population of
15 fewer than 5,000 residents. 48 percent of North
16 Dakotans live in one of the four largest cities in
17 this state.

18 Ten years from now, in 2010, the State of
19 North Dakota is projected to have more people over
20 the age of 65 than they do 10-year-olds and under.
21 We have two counties in the state, Sioux and
22 Rolette, that have increasing birth rates. The
23 remaining 51 counties, including the counties in
24 which those four large cities are located, have
25 decreasing birth rates. In 1962 there were over

1 16,000 births in North Dakota. Last year there
2 were fewer than 8,000. Projections call for them
3 to continue to go down.

4 Enrollment in K through 12 is projected to
5 continue its current decrease of 2 percent per year
6 for the next 10 years. This is a statewide figure,
7 not just rural, and it will amount to a 26 percent
8 decrease when it is compounded. A demographer I
9 interviewed for this panel today informs me the
10 situation is much the same throughout the Great
11 Plains, in an area from western Minnesota to
12 Montana down to Texas.

13 In addition, the ag economy, which is the
14 primary industry of each of these states, continues
15 to experience 40- to 60-year lows for their
16 prices. As a result, we are all experiencing
17 consolidation of our state populations from rural
18 to urban dwellers, a dramatic change in age
19 distribution from young to old at a far greater
20 rate than the rest of the nation and the transition
21 of industry from production of commodities to an
22 information- based economy.

23 I do want to reiterate that we fully
24 concur in the belief that a national telephone
25 network where broadband and high-speed

1 telecommunications are available to everyone,
2 regardless of where they live in this nation, is
3 essential if we are to participate in tomorrow's
4 economy.

5 I would submit, however, that it will
6 require a renewed commitment to rural America by
7 federal legislators and regulators and a
8 recognition of the high costs of bringing these
9 services to the people.

10 Substantial federal resources will be
11 needed and not merely an acknowledgment that rural
12 costs are high and that states will need to create
13 their own universal service funds to make up the
14 shortfall. Neither the economy nor population base
15 is sufficient for an adequate fund. Perhaps it is
16 illustrative to note that North Dakota is 350 miles
17 wide from east to west, 210 miles from north to
18 south, but has a population virtually identical to
19 Washington, D.C.

20 Despite the difficulty and the expense,
21 North Dakota independent telephone companies are in
22 various stages of deploying advanced broadband
23 services throughout their service territories. In
24 many cases, especially the further one travels from
25 the central office, the challenge is not simply the

1 expense of the investment, but complete
2 reengineering of our local telephone networks to
3 remove the loaded plant and add the serving area
4 interface points, the SAIs.

5 Every independent telephone company in
6 North Dakota is mindful of its subscribers'
7 evolving telecommunications needs, and we are
8 designing a network to meet those future
9 requirements, but our deployment strategy has been
10 a mix of market demand and a desire to do right by
11 our customers, not a business case that would be
12 extremely unprofitable.

13 Only a small minority of our business
14 customers and a handful of residential people have
15 expressed any interest in broadband services. We
16 continue, however, to deploy those facilities in
17 the most responsible way possible because demand
18 will increase as prices become more affordable,
19 information technology employment becomes more
20 available, and the public becomes more aware of the
21 benefits.

22 We have wonderful success stories to
23 tell: Virtually all of the independent telephone
24 companies are currently providing high-speed
25 facilities to state agencies, a variety of federal